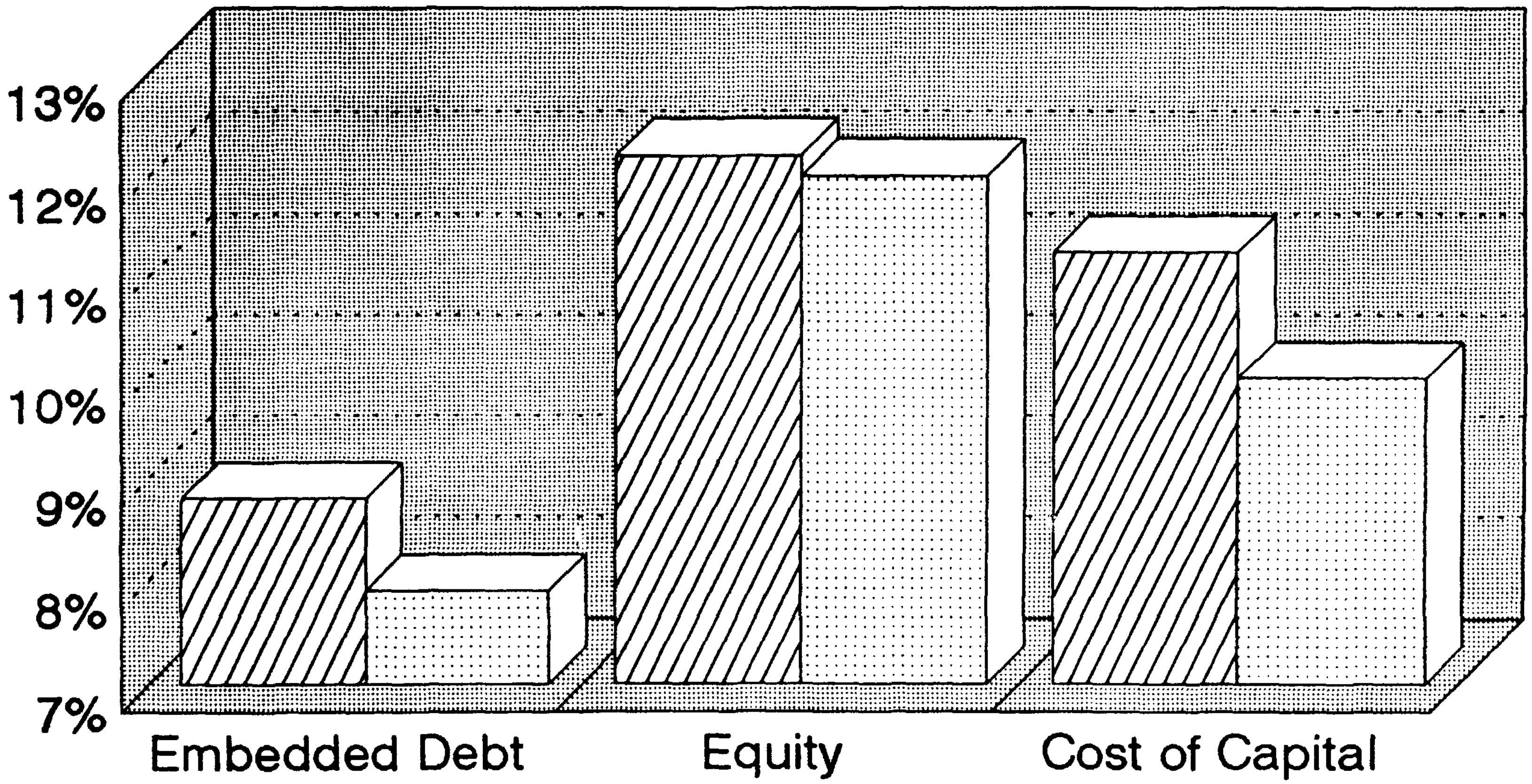
LEC Capital Costs

1990 and 1994

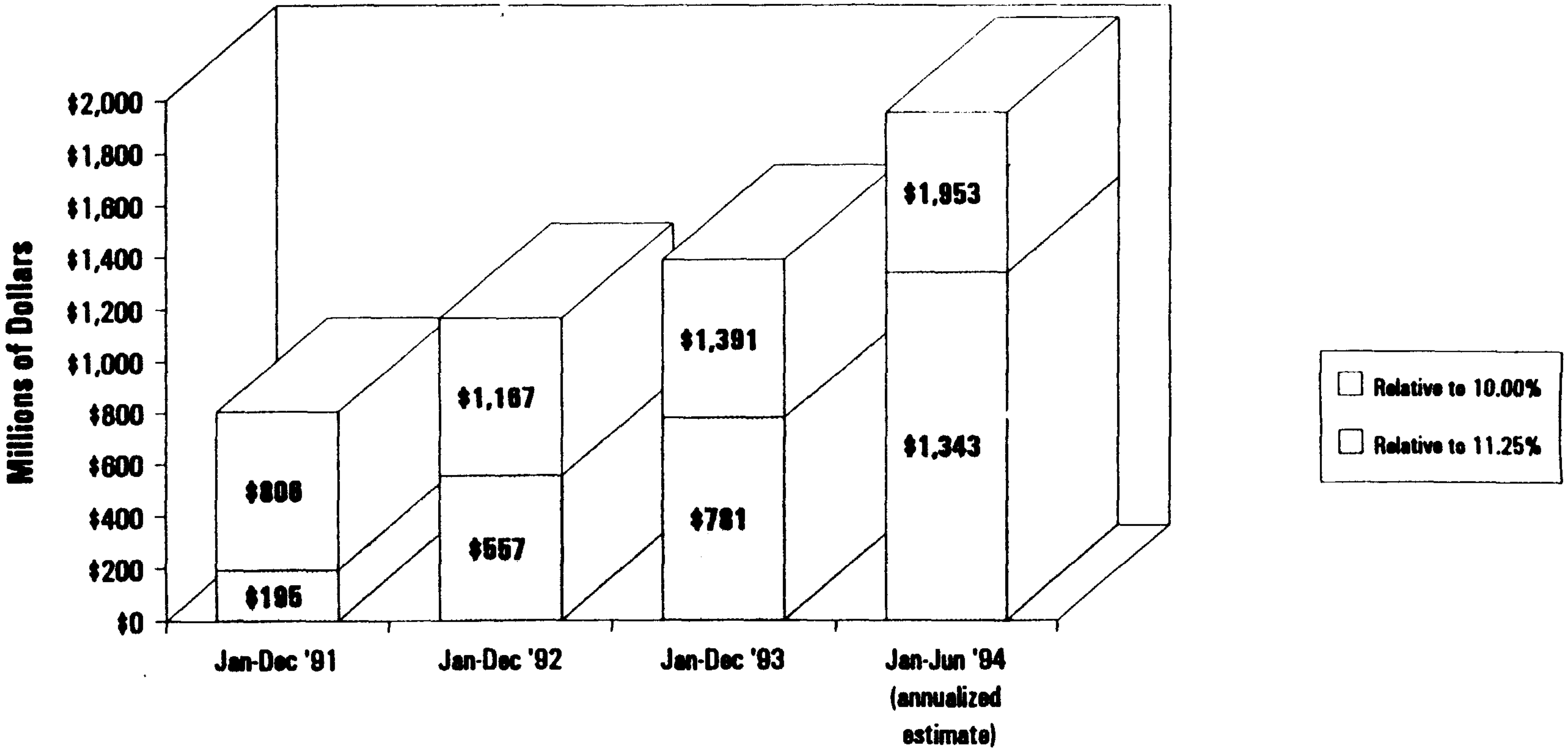


	Embedded Debt	Equity	Cost of Capital
1990	8.8%	12.2%	11.25%
1994	7.9%	12%	10%

Rate Cuts, Reinitialization Are Needed

- Price caps have allowed cumulative excess revenue of $2.9 billion
- LECs' annual revenues are now $1.3 billion over an 11.25% return level
- LEC cost of capital is 10% -- $600 million windfall vs. 11.25%
- Rate cut necessary to reflect FCC underestimates of LEC productivity

ANNUAL EXCESS PAYMENTS TO PRICE CAP LECs
RELATIVE TO 11.25% AND 10.00% COST OF CAPITAL



4 Year Cumulative Excess Payments:
$2.9 B relative to 11.25% cost of capital
$5.3 B relative to 10.00% cost of capital

SHARING MUST CONTINUE

- Insurance against excessive monopoly rates.
- Increasing every year. 1994 value could exceed $400 million.
- Only means to compensate ratepayers for LEC abuses of accounting and other rules.
- Fines are not a sufficient deterrent for enforcement of FCC rules.

Summary

- Productivity factor no less than 5.7%
- Cost of capital of 10.0%
- Adjust rates downward
- Keep sharing